

**MINUTES OF FEBRUARY 12, 2015 RETIREMENT BOARD
CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
DUE DILIGENCE MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Jack Browand (Management, Alternate)	Scott Brayman, Champlain
Michael Cross ² Chairman (Fire)	Barry Bryant, Dahab Associates
Patrick Evans ¹ (Fire)	Bryan Capelli, Retirement Specialist
Jean Kelleher ² Secretary (Management)	Shane Cochran, (Supplemental Retirement Board)
Shirl Mammarella ³ (Police, Alternate)	Kadira Coley, Retirement Administrator
Ed Milner ¹ (Police)	Charles Curia, , (Supplemental Retirement Board)
Rick Muse ³ (Fire, Alternate)	Robert Gilmore , (Supplemental Retirement Board)
Al Tierney ² (Police)	Arthur Lynch, Retirement Specialist
Laura Triggs ³ (Management)	Nancy McFadden , (Supplemental Retirement Board)
	Judy O'Connell, Champlain
	Christopher Spera, Deputy City Attorney
	Michael Stewart, COA Deputy Finance Director
	Joe Teague, ICMA-RC
	Lillian Vagnoni , (Supplemental Retirement Board)
	James Weight, ICMA-RC
	Valarie Wright , (Supplemental Retirement Board)
	Sergey Zelensky, Retirement Specialist

Absent:

Nelsie Birch (Management)

Terms: 1/1/2014 – 12/31/2015

¹Purchase of Service Credit Committee

²Technical Corrections and Plan Document Review Committee

³Vendor & Service Provider

CALL TO ORDER

The meeting was called to order at 8:37AM on February 12, 2015.

Ms. Kelleher and Ms. Vagnoni arrived at 8:40 AM.

ELECTION OF BOARD OFFICERS 2015 - 2016

Mr. Cross was nominated for board chairman. Ms. Kelleher was nominated for board secretary.

Ms. Triggs made a motion to

Approve Mr. Cross as board chairman and Ms. Kelleher as board secretary for 2015 and 2016.

Mr. Milner seconded the motion. The motion was unanimously approved (7 – 0).

INTRODUCTIONS

Ms. McFadden introduced Mr. Charles Curia to the board. He works for the City of Alexandria as a Medic and expressed interest in serving on the Supplemental Retirement Board as the Medic/Fire Marshal alternate representative.

MEETING RECORD

Ms. Triggs made a motion to

Approve the November 13, 2014 minutes.
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Mr. Milner seconded the motion. The motion was unanimously approved (7 – 0).

FINANCIAL REVIEW

Dahab distributed their quarterly report booklet. Mr. Bryant noted the following items:

- US economy expanding at fastest rate since 1999. GDP at 5% in most recent quarter
- Employment numbers were strong this quarter which implies economic outlook is positive
- This quarter domestic stocks did better than international stocks. Small cap was the best performing class of domestic stocks
- This quarter the Barclays Agg (domestic bonds) performed better than foreign bonds
- NCREIF ODCE – real estate up 3% (better return than bonds)

Manager Performance Summary (page 10)

- composite return 1.9% in quarter; in the 65th percentile (vs other public funds)
- Shadow index is how well asset classes did and composite shows how active managers performed
- Asset allocation
 - The ratio of domestic stocks to foreign stocks is 2:1 which helped the portfolio
 - 10% mid cap, 6% small cap – this allocation pulled the portfolio down since mid-cap did not perform as well as small cap
 - Real Estate, represents 5% of the portfolio, did better than bonds
- Managers
 - Polen returned 10.2% well above the benchmark
 - Herndon was down 2% - Herndon is value manager – moved money into oil, drag return down, when oil prices go up then will do well, really hurt portfolio this quarter
 - Managers are charged to beat index over market cycle. Have not seen a bear mkt since inception of most managers
 - NewSouth – beat benchmark this year – this manager is a stock picker so review on company by company basis
 - PIMCO small cap has consistently beat benchmark
 - Johnston – International Equity manager who performed much better than benchmark
 - Great quarter for PRISA
 - UBS below benchmark, however you cannot buy the benchmark, we are looking for real estate to do better than bonds and it did this quarter
 - PIMCO – sold through brokerage funds. In essence same fund but big spread in returns. Question out to Comerica about differences

- Review of active managers – domestic managers lag benchmark, foreign managers have done better. May want to consider passive management in the future – active managers are saying the effect of Fed. is affecting market.
- Discussion/Board Questions
 - PIMCO
 - Difference in the PIMCO – Comerica 3rd party trust and invest as Comerica. PIMCO has a relationship with Prudential. Prudential money is used to pay benefits, relieves need to move money. Could invest in PIMCO directly. Mr. Bryant will look into difference in funds. Is trade timing affecting performance?
 - Board members asked for details about the different versions of PIMCO. Staff noted that historically the Prudential version has performed better than Comerica
 - Herndon
 - A trustee noted that their performance is of concern – well below benchmark – may not want to keep through entire market cycle.
 - Mr. Bryant agreed their performance is a source of concern. He recommended that we don't want to fire right now but rather would recommend to watch and see how they do in the next year
 - Is Herndon better in down market? They have underperformed in 2013 and 2014
 - Mr. Bryant could not definitively respond yes.

MANAGER REVIEW – Champlain Investment Partners

Judy O'Connell (Chief Operating Officer) and Scott Brayman (Chief Investment Officer)

- Firm Update
 - Based in Vermont
 - In up market “junky” companies do well, opposite in up market – their strategy focuses on high quality companies
 - 100% EE owned – expanded partnership by 4 employees, one partner expected to retire at the end of 2015
 - Manage two strategies – small cap and mid cap
- Portfolio update
 - Returns are lagging benchmark but comfortable with numbers
 - Types of companies chosen for portfolio should not outperform in environment that has existed since inception
 - Return on Invested Capital (ROIC) – short term- page 12
 - When blue line down high return companies underperform and outperform when up
 - Focus on high quality high return companies. (similar to Mr. Warren Buffet)
 - Over time high quality companies will outperform
 - Return on Invested Capital (ROIC) – long term page 13
 - long range performance of what shown on page 12
 - Every time market went up, fund has done well
 - Must be patient and think about the long term
 - Rolling 4-year Relative Returns - page 14 – full mkt cycle
 - 3-yr returns 24% - unsustainable – when negative returns Ch. Adds lots of value
 - Chart based in historical data
 - The funds goal is not to try outperform in all markets but rather to outperform in bad market
 - Composite Risk Reward - page 15

- Chart illustrates fund has less risk, but similar return to benchmark
- Portfolio Characteristics - page 16
 - Think of this on per share basis – growing revenue per share
 - Standard Deviation for the fund is low 4.5% versus benchmark 6.0%
 - Do not own real estate and utilities – high yielding sectors
- 2014 Return Analysis review - Page 11
 - Chose not invest in utility sector or REIT (collections of properties put in trust) – interest rate call or market timing call.
 - Going to hold strong to investment philosophy
 - Exposed to banks and insurance brokers
 - Will underperform in exchange for potential outperformance
 - Banks if rates go up – will do well
 - Took hit on energy sector – expect to make all lost back down the road.
 - Industrial hit linked to energy down turn
 - Outperform in 2013, down in 2014 – no destruction of capital
 - Typical for Champlain to rebalance away from “big winners” and add weight to those that are underperforming
 - Denbury – biggest detractor – supply of CO2 which can increase production of faltering oil companies. Down because of oil prices, but good business model and pay dividend (unheard in small and mid-cap fund)
 - Deficit last year transitory and not permanent
- Self-correcting nature of energy market - Page 24
 - When oil high – lose money in stock 6 months out
 - At 50 future returns are relative favorable
 - Near term risk is a real concern
- Mr. Bryant asked how much of the portfolio is held in cash. – Champlain responded that 4.5% including a recent buy out (without about 2%) – thus fully invested

ICMA-RC UPDATES

James Weight (Relationship Manager) & Joe Teague (Managing Vice President)

- Site Visit on March 25th at ICMA-RC
- New CEO – Bob Schultz (former VRS director) officially start next week
- Average Returns
 - Page 2 – participants earn 5.6% on average for 2014 - 401(a)
 - Page 5 – participants earn 6.7% on average for 2014 - 457
- Allocations to plus fund has come down slightly from initial allocations
- Questions
 - A trustee asked if any outreach to former (non-active employees) providing education.
 - ICMA-RC responded that they did reach out to both active and non-active participants. They broke participants down by groups and amount of investment
 - Gloria Moody and Steve Taylor reached out to employees invested in PLUS fund. Each conversation was to ensure the participant understood their investment in PLUS fund
 - Has there been any effect on 457 based on adding the payroll deduct ROTH IRA?
 - Staff noted that they had not noted any direct correlation.
 - What are the enrollment numbers attributable to? –new employees or existing employees?

- Staff noted that it is probably a bit of both new and existing employees. As the hybrid population increases you may expect to see fewer new employees enrolling in the City's 457 plan.
- What does inactive mean?
 - no contributions in the past 13 months
- Why was Mr. Schultz chosen to lead ICMA-RC
 - He has a long record of public sector experience – which is all ICMA-RC does. Lot of industry knowledge
- Is there much turn over at CEO position?
 - Joan McCallen was CEO for 12 years and previous was in for approximately 8 years

ADMINISTRATOR'S REPORTS

Regular Investment Reports

No rebalancing was required.

Cash Flows Reports

Reports are included in the Board Packet. (HL Fund III, Landmark, Real Estate, Timber & Farmland)

Other Items

Staff reviewed the list of investment manager presentations. Staff will work with Mr. Bryant to develop a plan for investment manager visits for the remainder of the year.

Follow-up Items

Constraints in the PIMCO All Asset Fund

Mr. Bryant noted that no more the 50% can be invested in equities, no more than 50% in any one PIMCO underlying fund, combined amount in inflation related cannot exceed 75%, cannot short stocks or create derivatives

INTERNATIONAL FIXED INCOME MANAGER SEARCH

Dahab distributed the Global Investment Grade Fixed Income Manager Search booklet. Details are based on search recently done by Dahab. The search results provided illustrative information on 3 managers and their funds.

- Mr. Bryant discussed the difference in international and domestic bonds
- Barclays Aggregate (“BAGG”)
 - Treasuries/agencies, corporate and mortgages
 - Outside of that is TIPS, junk bonds, all foreign bonds and municipal bonds
 - Core plus can invest outside of BAGG
- International Investment
 - sovereign – government bonds outside us (all the way down to junk bonds)
 - currency
 - corporate sector
 - mortgages
 - agencies
 - inflation linked bonds
- Foreign fixed income can invest in quite a few things that domestic fixed income cannot

- Organizational Information - page 6
 - Mr. Bryant noted that the as the number of securities increases the harder it becomes to vary from benchmark
 - Duration = interest sensitivity
- Performance Information - page 7
 - Dahab walked the Board through historical performance
- Items to listen for when International Fixed Income Managers present
 - view of interest rates
 - duration positioning
 - value of currency
 - interest rate change differentially
 - individual strategy
 - Do we really want to be in international fixed income? (Mr. Bryant noted that the industry is unfamiliar with markets in rising interest rate environment)
- Presentations from managers will be in person or by phone – will be invested via mutual funds
- Why municipal bonds treated differently – taxed differently
- Question about fees – do we have enough money for the funds in the examples. Requires \$50 million for separate account. Mr. Bryant noted that we'd go in co-mingled or mutual fund.
- Mr. Bryant noted that one of the Franklin funds had been excluded during the original analysis. A trustee asked why they had been excluded. Mr. Bryant noted the fund's drawdown, maximum loss from peak to trough over a period of time, was out of the desirable range.

COMMITTEE REPORTS

Technical Corrections and Plan Document Review Committee

No report was given.

Vendor & Service Provider Review Committee

No report was given.

Purchase of Service Committee

No report was given.

OLD BUSINESS

None.

NEW BUSINESS

None.

NEXT MEETINGS

1. Thursday – March 12th at 8:30 AM, Sister Cities 1101, Interim Meeting
2. Thursday – April 9th at 8:30 AM, Sister Cities 1101, Interim Meeting
3. Thursday – May 21st at 8:30 AM, Sister Cities 1101, Joint Due Diligence Meeting

ADJOURNMENT

The meeting adjourned at 10:57 AM.

HANDOUTS

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [3(a)]
Monthly Investment & Rebalancing Report [7(a)(i)]
Volatility Report [7(a)(ii)]
Private Equity Cash Flow Report [7(a)(iii)]
Real Estate Cash Flow Report [7(a)(iv)]
Timber Flow Report [7(a)(v)]
Farmland Cash Flow Report [7(a)(vi)]
Manager Presentations [7(b)(iii)]

Distributed to Board members at the meeting:

- Champlain Partners Presentation Booklet 4Q2014
- Dahab's Deferred Compensation, Defined Contribution & ROTH IRA Performance Review
- Dahab's Global Investment Grade Fixed Income Manager Search – February 12, 2015
- Dahab's Performance Review Report – December 2014
- ICMA-RC's City of Alexandria Education Plan Booklet – February 12, 2015